

**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
SHERIFF**

**For The Period
October 1, 2014 through December 31, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FLOYD COUNTY SHERIFF

**For The Period
October 1, 2014 through December 31, 2014**

The Auditor of Public Accounts has completed the Floyd County Sheriff's audit for the period October 1, 2014 through December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees were \$45,789 for the period October 1, 2014 through December 31, 2014. Receipts for the period were \$498,846 and disbursements were \$453,057.

Report Comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Benjamin L. Hale, Floyd County Judge/Executive
The Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying statement of receipts, disbursements, and excess fees - regulatory basis of the County Sheriff of Floyd County, Kentucky, for the period October 1, 2014 through December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Benjamin L. Hale, Floyd County Judge/Executive
The Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the period October 1, 2014 through December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 08, 2015 on our consideration of the Floyd County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Floyd County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

The Honorable Benjamin L. Hale, Floyd County Judge/Executive
The Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

June 08, 2015

FLOYD COUNTY
JOHN P. HUNT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period October 1, 2014 Through December 31, 2014

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	5,335
State Fees For Services:		
Finance and Administration Cabinet	\$	19,148
Sheriff Security Service	<u>1,913</u>	21,061
Circuit Court Clerk - Fines and Fees Collected		1,270
Fiscal Court		40,308
County Clerk - Delinquent Taxes		47,174
Commission On Taxes Collected		318,894
Fees Collected For Services:		
Auto Inspections	1,942	
Accident and Police Reports	447	
Serving Papers	9,930	
Carrying Concealed Deadly Weapon Permits	3,066	
Mountain Comprehensive Care Contract	<u>4,718</u>	20,103
Other:		
Inmate Transportation	3,223	
Miscellaneous	<u>1,421</u>	4,644
Interest Earned		57
Borrowed Money:		
State Advancement		<u>40,000</u>
Total Receipts		498,846

The accompanying notes are an integral part of this financial statement.

FLOYD COUNTY
 JOHN P. HUNT, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period October 1, 2014 Through December 31, 2014
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	92,861
Other Salaries		24,839
KLEFPF Salaries		4,650

Employee Benefits-

Employer's Share Social Security		11,232
Employer's Share Retirement		20,939
Employer Paid Health Insurance		33,198

Materials and Supplies-

Office Materials and Supplies		10,501
Uniforms		25,168
Police Equipment		7,282

Auto Expense-

Gasoline		36,208
Maintenance and Repairs		15,764

Other Charges-

Dues		1,162
Postage		13,098
Travel and Training		1,870
Consulting and Contracting		6,700
Transportation of Inmates		1,721
Information Technology Expense		10,193
Utilities/Telephone/Rent		1,015
Telephone		2,383
Telephone Branch Office		180
Fiscal Court Fees		130
Miscellaneous		810

Capital Outlay-

Office Equipment		2,674
Vehicles		47,500
	\$	372,078

Debt Service:

State Advancement		40,000
Vehicle Lease		19,500
		59,500

Total Disbursements \$ 431,578

The accompanying notes are an integral part of this financial statement.

FLOYD COUNTY
JOHN P. HUNT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period October 1, 2014 Through December 31, 2014
(Continued)

Net Receipts		\$	67,268
Less: Statutory Maximum			<u>21,479</u>
Excess Fees Due County for 2014			45,789
Payment to Fiscal Court - February 23, 2015	\$	8,000	
March 27, 2015		<u>37,789</u>	<u>45,789</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 3. Deposits

The Floyd County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Floyd County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

The Office of the Sheriff was committed to a lease agreement with C&M Leasing for a Chevrolet Tahoe. The agreement requires an annual payment of \$19,500 for 3 years to be completed on December 30, 2016. The total remaining balance of the agreement was \$39,000 as of December 31, 2014.

Note 5. Drug Abuse Resistance Education Program Account

The Floyd County Sheriff maintains an account for Drug Abuse Resistance Education (DARE) Program money. This money is to be used for drug education. Funds totaling \$4,467 were transferred from the former Sheriff to the current Sheriff. As of December 31, 2014, funds totaling \$250 were expended. The ending balance as of December 31, 2014 was \$4,217.

Note 6. Drug Enforcement Account

The former Floyd County Sheriff maintained a drug enforcement account made up of proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds were to be used for law enforcement activities. Funds totaling \$5,670 were transferred from the former Sheriff to the current Sheriff. As of December 31, 2014, the Sheriff earned \$1 in interest and funds totaling \$500 were expended. The ending balance as of December 31, 2014 was \$5,171.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Benjamin L. Hale, Floyd County Judge/Executive
The Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the Floyd County Sheriff for the period October 1, 2014 through December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated June 08, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Floyd County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Floyd County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Floyd County Sheriff's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comment and recommendation as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Floyd County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 08, 2015

COMMENT AND RECOMMENDATION

FLOYD COUNTY
JOHN P. HUNT, SHERIFF
COMMENT AND RECOMMENDATION

For The Period October 1, 2014 Through December 31, 2014

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's internal control structure lacks an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The Sheriff's bookkeeper has access to cash, prepares checks, and posts to the receipts and disbursements ledgers. These significant control deficiencies could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. Due to the Sheriff's number of staff it is not possible to overcome these risks. However, the Sheriff or a designee outside of the accounting function could perform the following compensating controls to mitigate the effects of the significant deficiencies to a lower level:

- The Sheriff could periodically compare the daily check-out sheet to the deposit ticket and receipts ledger.
- The Sheriff could initiate deputies at the end of the day to count other deputies' cash drawers.
- The Sheriff could review supporting documentation before signing checks.
- Bank reconciliations could be prepared by someone independent of the accounting process.

We recommend the above compensating controls be implemented and their existence be documented by dating and initialing all supporting documents.

Sheriff's Response: No response.

